MORE THAN EVER

NOVA SCOTIA BUSINESS INC. 2008/2009 ANNUAL REPORT

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Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

www.novascotiabusiness.com/more

MORE THAN EVER

There's no question; we are living in the most challenging economy of the past half century. We recognize that industries, companies and individuals in the province, across Canada and around the world are struggling during this recession.

Yet great things are still happening in Nova Scotia.

More than ever, our domestic businesses are investing in themselves and the future. They're diversifying markets, building on existing relationships and increasing productivity through innovation.

Internationally, Nova Scotia's value proposition remains strong and continues to resonate with prospective clients. Our investment attraction team continues to make strides in developing sectors, including financial services.

Stephen Lund
President & Chief Executive Officer

"We came here five years ago with two or three people and we're now at 92 and I think it's indicative of what we think about this place," said David Brown, CEO of Flagstone Reinsurance Holdings Ltd. "We wouldn't have seen the kind of growth we've had in Halifax if it hadn't been for the partnership we have with NSBI."

As we navigate our way through this recession, our team remains focused on our goal of expanding business activity in Nova Scotia. We are doing what we do best: strengthening homegrown businesses and attracting the world's top companies to Nova Scotia.

We continue to be aggressive.

More than ever, we are working creatively to come up with flexible solutions to address the unique challenges and opportunities facing our clients.

Every day, our team works with Nova Scotia companies to help them find the right tools to strengthen their competitiveness. For example, Lynn Coffin, a member of our business advisory team, and Pamela Rudolph, a trade development executive, continue to work with local metal fabricators to help secure new contracts at home and abroad.

As another example, our venture capital team completed a follow-on equity investment with a Halifax-based pharmaceutical company, Origin BioMed. With the investment, Peter MacNeil, manager of venture capital for NSBI,

Business Financing / Venture Capital Authorizations

Advanced Precision Machining & Fabrication Limited	$175,000
Acadian Seaplants Limited	$270,000
Wearwell Garments Limited	$332,500
Origin BioMed	$2,000,000
Unique Solutions Design	$280,000
Intelivote Systems	$1,000,000
Kytogenics	$250,000
Azorius	$1,000,000
IMO Foods Limited	$450,000
Maritime Steel and Foundries Limited	$800,000
Cape Breton Flight Institute Incorporated	$710,000
E&R Langille Contracting Limited	$800,000
Bradean's Tool & Die Limited	$251,600

Investment Attraction Authorizations

McGregor Geoscience Limited and Superport Marine Services Limited

Fleetway Inc.

Prudential Consulting Inc.

Cape Breton Flight Institute Incorporated

Admiral Insurance Services

Professional Quality Assurance Ltd.

Lixar I.T. Inc.

Flagstone Management Services (Halifax) Limited

Lockheed Martin Canada

Kohltech International Limited

sits on Origin BioMed's board of directors and shares his knowledge and expertise as the company expands into new North American markets.

You will find more stories featuring NSBI's other business teams, partners and clients in this year's annual report: www.novascotiabusiness.com/more

When the economic crisis took hold in 2008, we challenged ourselves, and our clients challenged conventional thinking by surviving and thriving this past year. In 2009/10, that won't be different.

We will continue knocking on doors. We will aggressively seek new opportunities.

We will continue to work closely with our shareholder, our partners and our companies because we know that together, we're better.

We applaud our clients, our partners, our team and our board of directors for their dedication and commitment to the province.

As we move forward, hard work and perseverance will help Nova Scotia continue to compete in the world, and win.

Doug Hall,
Chair of the Board

Nova Scotia Business Inc. The Year In Review

APRIL 2008

NSBI leads a delegation of 10 Nova Scotia multi-sector companies to Iceland to continue building on current relationships, pursue new business opportunities and further strengthen the province's commitment to the market.

MAY 2008

Halifax hosts the annual meeting of the Caribbean Development Bank. In partnership with McInnes Cooper, NSBI organizes the first quarterly Nova Scotia-Caribbean networking event celebrating the longstanding ties between the two regions.

JUNE 2008

Dartmouth-based Kytogenics Pharmaceuticals secures equity financing from NSBI to explore opportunities in clinical therapies, medical devices and advanced drug delivery products.

JULY 2008

McGregor Geoscience and Superport Marine Services in Port Hawkesbury grow their operations and tap into emerging markets with assistance from NSBI.

AUGUST 2008

Origin BioMed, a leading manufacturer and exporter of over-the-counter topical drug products, continues to expand into North American markets with a follow-on equity investment from NSBI.

UK-based insurance service provider, Admiral Insurance Services, came to Halifax in 2007. In 2008, the company strengthens its commitment to the province and secures a payroll rebate with NSBI, which is tied to an expected creation of up to 400 jobs over the next five years.

Nova Scotia Business Inc. The Year In Review

SEPTEMBER 2008

In partnership with federal and provincial governments, NSBI hosts more than 50 Nova Scotia companies at the first United Technologies Corporation (UTC) Supplier Gold Conference in Halifax. UTC provides high technology products and services to the global aerospace and building industries.

Azorus, a provider of customer relationship management (CRM) software solutions, expands its market reach in North America and Europe using equity financing from NSBI.

OCTOBER 2008

Advanced Precision Machining and Fabrication invests in a technology upgrade in Dartmouth, and NSBI invests a five-year payroll rebate. The company is expected to maintain 80 jobs while it makes productivity improvements and lowers overall costs.

WearWell Garments, a manufacturer and supplier of customized work clothes, celebrates 30 years of success in Stellarton. With assistance from NSBI, the company is expected to retain its existing workforce and create up to 20 new jobs over the next five years.

NOVEMBER 2008

As part of NSBI's strategy to help grow the IT sector, NSBI attracts Lixar, an Ottawa-based IT services company, to expand to Halifax. The company is expected to create up to 50 jobs over the next six years in Halifax.

NSBI, the Department of Labour and Workforce Development and Nova Scotia Come to life develop a website, www.brightcareerfutures.com, to connect students with job opportunities in Nova Scotia.

In partnership with EduNova and the Department of Energy, NSBI leads seven Nova Scotia companies on a trade mission to the United Arab Emirates (UAE).

Nova Scotia Business Inc. The Year In Review

DECEMBER 2008

New Glasgow-based E&R Langille Contracting expands its production facility in Mount William, using a term loan from NSBI.

Fleetway Inc., a leading Canadian naval engineering and technical services company, expands its headquarters in Halifax. With NSBI's assistance, the company is expected to create up to 100 jobs over the next five years, which will include engineers, technical staff and management positions.

JANUARY 2009

NSBI leads nine Nova Scotia building product companies to the BAU 2009 Trade Show in Germany.

FEBRUARY 2009

Acadian Seaplants is expanding to meet growing demands by doubling capacity at its processing plant in Cornwallis. NSBI's payroll rebate will assist the company in maintaining its workforce as it invests in its competitiveness.

MARCH 2009

The Business Retention and Expansion (BRE) program is rolled out by partners, including NSBI, to all regional development authorities across the province at an event in Cape Breton. The BRE program brings together experts gathering first-hand information from local companies on current challenges and opportunities.

Flagstone, Nova Scotia's first offshore international financial services company, grows further and is expected to create up to as many as 80 new positions under a payroll rebate agreement with NSBI.

What is the potential upside of this economic downturn?

In every challenge there's an opportunity. If there was ever a year that would challenge us more than any other, 2008/09 was it. It takes resourcefulness, innovation and a strong focus on the future to sharpen competitive edges and find the potential upside of an economic downturn.

- Nancy Tower, Director, NSBI Board of Directors

To find out what opportunities our clients, employees and partners have turned up in 2008/09, visit:

www.novascotiabusiness.com/upside

"With the economic downturn, customers are not coming to us; we have to travel to get the new accounts. Because we've been so successful with finding new markets, we've been able to include in our customer base clients like Canada's Wonderland, B.C. Parks and also a well known theme park from Florida."

- Tracy LeBlanc, Tracy's Wood N Things

"Why do it in an economic downturn? Well, because that's when people are focused on the issue. Not when, 'Oh, I know there are lots of jobs out there. The economy's really growing; I'm going to have lots of opportunities.'"

- Stuart Gourley, Department of Labour and Workforce Development, talking about *brightcareerfutures.com*

What can you do now to position your company for the future?

Doing what's needed now isn't always easy. These days, taking a chance may feel like a risk to business growth. But now isn't the time to sit back and wait out this recession. Now is the time to make investments, and think about what you can do now to position your company for the future.

- Jim Eisenhauer, Director, NSBI Board of Directors

To find out what others are doing and how NSBI can help, visit:

www.novascotiabusiness.com/future

"The biggest thing that we're doing right now is we're doubling the capacity of our plant in Cornwallis. That's going to enable us to be ready right now for growth, but also in the future as the economy starts to come back."

- Jean-Paul Deveau, Acadian Seaplants

"We've got a whole team of folks that can help the companies in Cape Breton, and I help make those connections. I help identify where a company needs help and where we have the expertise to help them."

- Tara Milburn, NSBI

How are we better together?

More than ever, we need to collaborate. By creating partnerships, pooling talent and combining resources, we can become even stronger with a stronger voice – and the results can be unexpected and extraordinary. There is no doubt we are better together.

- David Arenburg, Director, NSBI Board of Directors

To find out how collaboration is helping create and grow sectors in Nova Scotia, visit:

www.novascotiabusiness.com/together

"Nova Scotia is a province that promotes high-tech, engineering and high-skilled workers. I have facilities in other places and if I was looking to develop a new facility, this was the place to do it."

- Tom Digan, Lockheed Martin Canada

"We realized that CoRDA and NSBI could work really well together to make sure that Truro's and Colchester's piece of the new-media pie was part of the entire fabric of digital media within Nova Scotia."

- Alan Johnson, Colchester Regional Development Agency (CoRDA)

BOARD OF DIRECTORS

CORPORATE SCORECARD

FINANCIAL STATEMENTS

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Nova Scotia Business Inc.
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Due diligence and adherence to rigorous corporate governance guide the action of NSBI's private-sector board. Comprised of 13 respected business leaders from communities across Nova Scotia, the NSBI board provides guidance and governance for NSBI's business activities.

Including committee meetings, members of the board met more than 30 times in 2008/09 to:

- Oversee the corporate governance framework
- Review and approve quarterly and annual financial reports
- Oversee the strategic business planning process
- Identify and monitor major risks facing the corporation
- Monitor the integrity of the corporation's internal control systems
- Approve financial transactions within board limits

Chair & Vice Chair

Chair: Douglas G. Hall
Vice Chair: J.D. (Jim) Eisenhauer

Committees

The Audit, Human Resources Governance, and Investment Committees serve to assist the board in carrying out its responsibilities.

The Audit Committee oversees NSBI's financial reporting, assesses its internal controls and risk environment, and reviews the report prepared by the corporation's external auditor.

Chair: Lawrence K. (Larry) Evans, Q.C.
Members: James A. Kehoe, Nancy Tower

The Human Resources Governance Committee ensures appropriate human resource management policies are in place, manages the recruitment process for new board members, as well as develops and oversees NSBI's corporate governance principles.

Chair: Paul A. Kent
Members: David Arenburg, Lois Dyer Mann

The Investment Committee oversees NSBI's investment framework and policies, monitors the performance of the corporation's investment portfolio, and recommends financial transactions outside its approval limit to the full board for approval.

Chair: J.D. (Jim) Eisenhauer
Members: William A. Black, James M. MacConnell, Sean Murray, Stuart Rath

Officers

Stephen Lund, President & Chief Executive Officer
Pat Ryan, Vice-President & Chief Operating Officer
Lisa Bugden, Vice-President, Marketing & Communications

In Alphabetical Order

David Arenburg (appointed November 2006)
President, Adcor Group of Companies, Yarmouth
Yarmouth Hospital Foundation, Former Chair
Junior Achievement Business Hall of Fame Board of Governors
SEASTAR Society of Nova Scotia, Director

William A. Black (appointed November 2006)
Former President and CEO, Maritime Life, Halifax
Bank of Canada, Lead Director
The Shaw Group Inc. Board of Directors
The Standard Life Assurance Company of Canada, Board Deputy Chair

J.D. (Jim) Eisenhauer, Vice Chair (appointed January 2005)
President, ABCO Group Limited, Lunenburg
Atlantic Industries Board of Directors
Composites Atlantic Board of Directors
Nova Scotia Power Inc. Board of Directors

Lawrence K. (Larry) Evans, Q.C. (appointed November 2003)
Partner, Evans MacIsaac MacMillan, Port Hawkesbury
Port Hawkesbury Food Bank Society, Board Chair
Nova Scotia Barristers' Society, Discipline Hearings Committee
Nova Scotia Barristers' Society, Former President

Douglas G. Hall, Chair (appointed November 2003)
Former Managing Director, RBC Dominion Securities, Halifax
Claymore Investments, Advisory Board
Millar Western Forest Products, Board of Directors
Southwest Properties Advisory Board

James A. Kehoe (appointed November 2006)
President, Joneljim Group of Companies, Sydney
Cape Breton University Board of Governors
BCA Investments Co-op Board of Directors
YMCA Fundraising and Building Committee

Paul A. Kent (appointed July 2002)
Principal, Cetas Advisory Inc., Halifax
Saga Investments Board of Directors
Maritime Tidal Energy Corporation, Board of Directors
Symphony Nova Scotia Foundation Board of Trustees

James M. MacConnell (appointed April 2005)
Former President and CEO, Scotsburn Co-Operative Services Limited, Scotsburn
Aberdeen Hospital Foundation, Board of Directors, Chair
Royal Nova Scotia International Tattoo Board of Directors
Co-operators Group of Companies, Director

Lois Dyer Mann (appointed December 2007)
Former Partner, Caldwell Partners, Halifax
2011 Canada Winter Games Host Society, Director and Chair of HR Committee of the Board
Halifax Chamber of Commerce, Former Chair
IWK Health Centre Foundation, Former Trustee

Sean Murray (appointed June 2007)
President and CEO, Advocate Printing and Publishing Company Limited, Pictou
Canadian Printing Industries Association, Past Chair
The Canadian Community Newspaper Database Corporation (ComBase), Chair
Aberdeen Hospital Foundation Board of Directors

Stuart Rath (appointed March 2007)
President and Director, Stuco Holdings Limited, Truro
Truro Centre Limited, Vice President
Colchester Regional Development Agency Board of Directors
Erdene Resource Development Corp. Board of Directors

Ian Thompson (appointed January 2009)
Deputy Minister, Department of Economic and Rural Development, Halifax
InNOVAcorp Board of Directors
MT&L Public Relations, Former Partner
Halifax Chamber of Commerce, Former Board Chair

Nancy Tower (appointed October 2004)
Chief Financial Officer, Emera Inc., Halifax
QEII Hospital Foundation, Board of Trustees
CAA Maritimes, Past Board Chair
Nova Scotia Institute of Chartered Accountants, Former President

Promote the growth of new and existing businesses in Nova Scotia

Measure	Targets 2008-09	Actual 2008-09
# of qualified referrals for export development, investment or financing	150	121
# of qualified referrals to external partner agencies	300	290
# of clients introduced to new markets or further advanced in existing markets	140	269
Client-reported actual and forecasted export sales (note1)	$50 million	$155.7 million

Provide access to capital for new/existing businesses in Nova Scotia

Measure	Targets 2008-09	Actual 2008-09
# of Business Financing / Venture Capital projects authorized (note 2)	15	13
# of companies that undertake productivity enhancements utilizing the Strategic Investment Fund (SIF)	10	4
Impaired loan ratio	15% or less	13.4%
Annual client review	100% of clients reviewed	99%
Leverage ratio of partner/client: NSBI	Ratio of 1:1	1.33 to 1

Attract leading edge sustainable business investment in Nova Scotia

Measure	Targets 2008-09	Actual 2008-09
# of projects committed by investment attraction clients	15	10
Average gross salary of new jobs forecasted to be created by investment attraction clients (note 3)	$42,500	$48,117
Annual Client Review Completed	100%	92.5%
Forecasted average portfolio return on investments utilizing SIFs	40% or greater	70.1%

Develop an action-oriented, client-focused organizational culture

Measure	Targets 2008-09	Actual 2008-09
% of employees participating in training and development programs	95%	97%

Overall performance

Measure	Targets 2008-09	Actual 2008-09
Total forecasted new and retained payroll (note 4)	$150 million	$108 million (max)
Operate within annual budget:		
Operating expenses, gross	$12.0 million	$12.2 million (note 6)
Less: recoveries	($0.5 million)	($1.4 million) (note 7)
Operating expenses, net of recoveries	$11.5 million (note 5)	$10.8 million

Corporate Scorecard Notes

1. Client reported actual export sales for 2008-09 was $36.9 million. Client reported forecasted export sales for 2008-09 was $118.8 million.
2. Target of 15 established, which includes successful transactions with partners and material amendments to existing clients that have a positive net economic benefit to the province. A total of 13 transactions completed. This includes five loans, five equity investments and three material amendments to existing clients that have a positive net economic benefit to the province.
3. Average gross salary includes salary and benefits.
4. Consistent with industry reporting standards, NSBI's approach to reporting the creation and retention of payroll is to record the project, and the maximum forecasted payroll impact, in the fiscal year in which the project is authorized and accepted by the client.

   The maximum payroll impact is calculated by adding the maximum payroll possible plus retained payroll from projects completed in the fiscal year.

   Total payroll = maximum payroll + retained payroll.

   Forecasted payroll from investment attraction clients are determined by the investment attraction projects authorized in 2008/09.

   Payroll impact from trade development clients are forecasted using a metric: one incremental job created for each $90,000 in incremental export sales. The 24-month sales data reported by these clients is annualized and then further divided by $90,000 to estimate the job impact. To calculate payroll, the job figure is multiplied by the average per capita income in the province as reported by Statistics Canada. The assumption: each forecasted job created by trade development clients has a salary equivalent to the average per capita income in the province.

   Forecasted payroll from business financing and venture capital clients is determined by the business financing/venture capital projects authorized in 2008/09.

   The business advisory team reports the forecasted payroll impact from projects that have been referred to and completed through partner agencies, in which the team played a significant role by arranging financing or assisting with business planning, etc. The forecasted job and payroll impact is reported by its clients.

'Overall Performance: 2008-09

	Forecasted Jobs		Forecasted Payroll
	Minimum (Min + Retained)	Maximum (Max + Retained)	(Max + Retained)
Investment Attraction	780	1,306	62,311,500
Trade Development	693	693	19,527,665
Business Financing	519	565	20,891,000
Venture Capital	16	17	843,500
Business Advisory	147	152	4,446,509
Total	2,155	2,733	108,020,174

5. Presented in NSBI's 2008/09 business plan.
6. Presented in NSBI's 2008/09 audited financial statements.
7. Classified in NSBI's 2008/09 audited financial statements as 'miscellaneous revenues.'

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.

Stephen Lund
President and
Chief Executive Officer

Barry Burke, MBA, CMA
Controller

Auditors' Report

To the Directors of Nova Scotia Business Inc.

We have audited the balance sheet of Nova Scotia Business Inc. as at March 31, 2009 and the statements of revenue, expenditures and retained earnings, comprehensive income, changes in shareholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Halifax, Canada
May 22, 2009

Chartered Accountants

Balance Sheet

(in thousands of dollars)
March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash	$ 11,440	$ 21,804
Accrued interest receivable	2,452	1,676
Due from the Province of Nova Scotia	11,385	11,100
Current portion of loans receivable (note 4)	5,816	5,607
Other receivables	766	688
	31,859	40,875
Nova Scotia Business Fund assets:		
Loans receivable (note 4 and 8)	83,496	89,847
Equity investments (note 5 and 8)	17,962	16,206
Industrial parks and malls (note 6)	2,604	2,579
	104,062	108,632
	$ 135,921	$ 149,507
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,646	$ 16,182
Provision for payment of guarantees (note 8)	2,934	2,894
Dividend payable	–	1,190
Principal due within one year to the Province of Nova Scotia (note 9)	12,545	8,109
	30,125	28,375
Long-term debt:		
Due to the Province of Nova Scotia (note 9)	82,594	93,530
Shareholder's equity:		
Retained earnings	24,678	26,766
Accumulated other comprehensive income (loss)	(1,476)	836
	23,202	27,602
Commitments (note 11)		
Contingencies (note 12)		
	$ 135,921	$ 149,507

See accompanying notes to financial statements.

On Behalf of the Board:

Director Director

Statement of Revenue, Expenditures and Retained Earnings

(in thousands of dollars)
Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Provincial grants:		
Operating grant	$ 11,405	$ 9,881
Strategic investment grant	10,557	14,491
Loan valuation allowance	1,600	1,600
Gateway initiative grant	172	–
Interest on loans receivable	7,008	8,488
Other investment income	205	434
Gain on sale of property	35	790
Miscellaneous	1,910	2,047
	32,892	37,731
Expenses:		
Operating expenses (Schedule)	12,195	10,927
Strategic investments	10,557	14,491
Allowance for credit losses and provision for payment of guarantees	5,899	2,909
Nova Scotia Business Fund expenses (Schedule)	6,157	7,848
Gateway initiative expenses	172	–
	34,980	36,175
Excess of revenue over expenditures	(2,088)	1,556
Retained earnings, beginning of year	26,766	26,400
Less: Dividend to shareholder	–	(1,190)
Retained earnings, end of year	$ 24,678	$ 26,766

See accompanying notes to financial statements.

Statement of Comprehensive Income

(in thousands of dollars)
Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Net income	$ (2,088)	$ 1,556
Other comprehensive income (loss):		
Change in unrealized gains on available-for-sale securities	(2,312)	91
	(2,312)	91
	$ (4,400)	$ 1,647

Statement of Changes in Shareholder's Equity

(in thousands of dollars)
Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Share capital:		
Authorized:		
100 Class A common shares with a par value of $1 each		
Issued and outstanding to the Province of Nova Scotia:		
100 common shares	$ –	$ –
Retained earnings	24,678	26,766
Accumulated other comprehensive income (loss):		
Balance beginning of year	836	745
Other comprehensive income (loss) for the year	(2,312)	91
Balance at end of year	(1,476)	836
Total Shareholder's Equity	$ 23,202	$ 27,602

See accompanying notes to financial statements.

Statement of Cash Flows

(in thousands of dollars)
Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ (2,088)	$ 1,556
Items not involving cash:		
Amortization	120	168
Allowance for credit losses and provision for payment of guarantees	5,899	2,909
Capitalized interest on loans receivable	37	(150)
Gain on sale of property	(35)	(790)
Loan valuation allowance - due from the Province of Nova Scotia	(1,600)	(1,600)
Change in non-cash operating working capital:		
Increase in accrued interest receivable	(776)	(607)
Increase in due from the Province of Nova Scotia	(285)	(4,134)
Increase in other receivables	(78)	(55)
Increase (decrease) in accounts payable and accrued liabilities	(1,536)	2,449
	(342)	(254)
Financing:		
Dividends paid to shareholder	(1,190)	–
New borrowings from the Province of Nova Scotia	5,047	2,009
Principal repayments to the Province of Nova Scotia	(10,000)	(7,631)
	(6,143)	(5,622)
Investments:		
Loan advances	(5,112)	(2,564)
Principal received on loans	7,085	7,353
Redemption of shares	–	75
Equity investments	(5,742)	(2,500)
Proceeds from disposal of Industrial Parks	37	1,437
Capital additions	(147)	–
	(3,879)	3,801
Decrease in cash	(10,364)	(2,075)
Cash, beginning of year	21,804	23,879
Cash, end of year	$ 11,440	$ 21,804

See accompanying notes to financial statements.

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

Nova Scotia Business Inc. (the "Corporation") is a corporation, wholly-owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia. The Corporation is not subject to provincial or federal taxes.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at amortized cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investments in publicly-traded companies are recorded at fair market value. Equity investments with limited market information available are initially recorded at cost less a general allowance for credit losses equal to 10% of cost. This allowance is immediately recorded to reflect the increased risk associated with equity investments. The investments are reviewed twice yearly for potential declines in value. If a decline is considered to be other than temporary, a specific allowance is recorded.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves, and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

Asset	Basis	Rate
Land improvements	Declining balance	5%
Industrial malls and other buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	4–15%

The Department of Transportation and Infrastructure Renewal has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Infrastructure Renewal and are not reflected in these financial statements.

(in thousands of dollars) Year ended March 31, 2009

1. Summary of significant accounting policies (continued):

(d) Other assets:

Other assets consist of property acquired through foreclosure. Other assets are recorded at cost less a general allowance for credit losses equal to 5% of cost. A specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

(e) Due to the Province of Nova Scotia:

Amounts due to the Province of Nova Scotia are recorded at amortized cost.

(f) Other comprehensive income (loss):

Comprehensive income is composed of the Corporation's net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale investments. All of the Corporation's publicly traded equity investments have been recorded as available for sale and this has resulted in a decrease of $2,312 to opening accumulated other comprehensive income.

(g) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears. In the event a loan is no longer considered to be impaired, interest revenue is recognized in the year of recovery.

(h) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5-10% of the amount disbursed. The Corporation provides for possible credit losses on an item-by-item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by a loan valuation allowance from the Province of Nova Scotia.

(i) Employee future benefits:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis. The public service award liability for the period prior to NSBI's inception is recorded on the financial statements of the Province of Nova Scotia.

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

1. Summary of significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:

Effective April 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants' Handbook Section 3862 - Financial Instruments - Disclosures, and Section 3863 - Financial Instruments - Presentation, on financial instruments and Section 1535 - Capital Disclosures.

Section 3862, Financial Instruments - Disclosures, describes the required disclosures related to the significance of financial instruments on the Corporation's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation, establishes standards for presentation of financial instruments and non-financial derivatives.

As required by the transitional provisions, these new standards have been applied without restatement of prior period amounts. The information related to these sections is contained in note 14.

Section 1535, Capital Disclosures, establishes standards for disclosing information about an entity's capital and how it is managed. The Corporation has complied with the new disclosure requirements beginning April 1, 2008 and the new disclosure requirements are presented in note 14.

3. Fair value of financial instruments:

The carrying value of accrued interest receivable, due from the Province of Nova Scotia, other receivables, and accounts payable and accrued liabilities approximate their fair value because of their short term-to-maturity.

The fair value and book value, excluding any reserves, of loans receivable as at March 31, 2009 are $108,249 and $120,254 (2008 - $119,624 and $126,807) respectively. Certain notes receivable in the amount of $3,170 (2008 - $2,326) have no set terms of repayment and are carried on the financial statements at cost.

(in thousands of dollars) Year ended March 31, 2009

3. Fair value of financial instruments (continued):

Equity investments in publicly-traded companies in the amount of $1,575 (2008 - $3,888) are recorded at fair market value, which represents the last bid price for the stock on the stock exchange. Equity investments in privately held companies in the amount of $16,387 (2008 - $12,318) are carried at cost less allowances in the financial statements. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets.

There are loan guarantees and other assets that represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets. These assets are carried on the financial statements at cost.

The amount due to the Province of Nova Scotia is comprised of a series of separate notes. The fair value and book value of the amounts due to the Province of Nova Scotia with scheduled repayment terms as at March 31, 2009 are $67,076 and $56,204 (2008 - $71,394 and $63,191), respectively. Notes payable in the amount of $38,935 (2008 - $38,448) have no set terms of repayment and are carried on the financial statements at cost. The principal on this note is repaid to the Province as it is collected on the loans receivable financed by this note. Due to the volume of accounts financed by this note and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of this amount due to the Province of Nova Scotia.

The fair values of the loans receivable and the amount due to the Province of Nova Scotia are determined using Canadian bond market conventions.

The yield to maturity curve by month for the Corporation was estimated using the following assumptions:

a) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).

b) The Province of Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.

c) The Corporation's credit spread relative to the Province of Nova Scotia credit spread for each specified maturity term based on a Memorandum of Understanding between the Nova Scotia Department of Finance and the Corporation respecting the borrowings of the Corporation.

The Corporation's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

4. Loans receivable:

	2009	2008
(a) Principal due:		
Performing loans	$ 106,903	$ 115,446
Impaired loans	16,521	13,687
	123,424	129,133
Allowance for credit losses (note 8)	34,112	33,679
	89,312	95,454
Less current portion	5,816	5,607
	$ 83,496	$ 89,847

Included in the above loans receivable are loans with concessionary terms which have principal amounts outstanding of $61 (2008 - $194) and concessionary allowance of $6 (2008 - $23). The concessionary terms consist of interest-free financing.

The concessionary allowance is calculated as the difference between the financing advanced and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

(b) Principal payments receivable in each of the next five years are as follows:

2010	$ 5,816
2011	5,939
2012	5,638
2013	5,670
2014	5,739

(in thousands of dollars) Year ended March 31, 2009

5. Equity investments:

	2009	2008
Common shares	$ 7,212	$ 9,525
Preferred shares	14,042	9,395
Convertible debentures	10,722	9,625
	31,976	28,545
Allowance for credit losses (note 8)	14,014	12,339
	$ 17,962	$ 16,206

6. Industrial parks and malls:

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 223	$ –	$ 223	$ 223
Land improvements	1,167	462	705	742
Industrial malls and other buildings	2,345	1,460	885	932
Wharves	1,512	1,125	387	408
Utilities	469	65	404	274
	$ 5,716	$ 3,112	$ 2,604	$ 2,579

7. Other assets:

	2009	2008
Property acquired through foreclosure, at cost	$ 822	$ 822
Less allowance for credit losses (note 8)	822	822
	$ –	$ –

(in thousands of dollars) Year ended March 31, 2009

8. Allowance for credit losses and provision for payment of guarantees:

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2009 Net balance outstanding
Loans receivable (note 4)	$ 123,424	$ 29,670	$ 4,442	$ 34,112	$ 89,312
Equity investments (note 5)	31,976	12,193	1,821	14,014	17,962
Guarantees (note 12)	3,534	2,934	–	2,934	600
Other assets (note 7)	822	822	–	822	–
	$ 159,756	$ 45,619	$ 6,263	$ 51,882	$ 107,874

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2008 Net balance outstanding
Loans receivable (note 4)	$ 129,133	$ 29,112	$ 4,567	$ 33,679	$ 95,454
Equity investments (note 5)	28,545	11,068	1,271	12,339	16,206
Guarantees (note 12)	5,008	2,879	15	2,894	2,114
Other assets (note 7)	822	822	–	822	–
	$ 163,508	$ 43,881	$ 5,853	$ 49,734	$ 113,774

(in thousands of dollars) Year ended March 31, 2009

9. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

			2009	2008
	Fiscal year of maturity	Weighted average interest rate	Principal outstanding	Principal outstanding
Note payable 2002-01	–	–	$ 33,889	$ 38,448
Note payable 2002-02	2022	5.31% - 6.75%	34,340	36,576
Note payable 2003-01	2009	4.85%	29	2,245
Note payable 2003-03	2012	5.02%	119	182
Note payable 2003-04	2014	5.35%	586	742
Note payable 2003-05	2011	5.44%	424	751
Note payable 2004-01	2017	4.64%	1,801	2,566
Note payable 2004-02	2015	3.41% - 4.55%	4,092	4,859
Note payable 2005-01	2011	4.23%	1,213	1,463
Note payable 2005-02	2014	3.82%	491	749
Note payable 2006-01	2027	5.09%	1,561	1,561
Note payable 2006-02	2027	4.98%	1,984	1,984
Note payable 2006-03	2027	4.86%	3,218	3,218
Note payable 2006-04	2027	4.94%	2,222	2,222
Note payable 2007-01	2027	5.11%	1,001	989
Note payable 2007-02	2027	4.89%	1,014	1,002
Note payable 2007-03	2027	4.97%	432	427
Note payable 2007-04	2027	5.01%	83	82
Note payable 2007-05	2027	5.38%	1,444	1,425
Note payable 2007-06	2027	5.58%	150	148
Note payable 2008-01	–	–	1,000	–
Note payable 2008-02	–	–	4,046	–
			95,139	101,639
Less principal due within one year			12,545	8,109
			$ 82,594	$ 93,530

The principal for note 2002-01 is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province.

The principal for notes 2008-01 and 2008-02 do not have set terms of repayment as at March 31, 2009.

The remaining notes are repayable in quarterly instalments of principal and interest based on the maturity dates and rates set out above.

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

9. Due to Province of Nova Scotia (continued):

(b) Principal payments due in each of the next five years are as follows:

2010	$ 12,545
2011	8,217
2012	6,672
2013	6,669
2014	6,590

10. Share capital:

The Corporation is authorized to issue 100 Class A common shares with a par value of $1 each. At year-end, 100 common shares have been issued to the Province of Nova Scotia.

11. Commitments:

(a) The Corporation has approved financing of $6,059 (2008 - $11,300) that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match-funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2009, transactions were approved with maximum annual payments over the next six years of $130.1 million (2008 - $131.9 million) as shown below.

2010	$ 27,992
2011	31,509
2012	31,651
2013	22,406
2014	15,388
2015	1,200
	$ 130,146

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

12. Contingencies:

(a) Guarantees:

	Authorized	2009 Utilized	2008 Utilized
Bank loans	$ 3,534	$ 3,534	$ 5,008
Less provision for payment		2,934	2,894
		$ 600	$ 2,114

Included in the above guarantees are: (a) a term loan in the amount of $3,134 (2008 - $4,458) that has been demanded but not yet settled (2008 - expiring between fiscal 2009 and 2011); and (b) a guarantee of a line of credit in the amount of $400 expiring in 2010.

The guarantees are secured by various assets and proceeds from liquidation are expected to offset any possible payments under the guarantees.

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. It is assumed that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

In addition, there are other outstanding claims against the Corporation for events that have arisen in the normal course of carrying on the operations of the Corporation. It is not possible at this time to determine the amount that may be assessed, or the impact to the Corporation's financial statements, with respect to these claims.

The Corporation's counsel is unable to form an opinion in regard to the likelihood of loss arising from the above litigation; consequently, no provision for any possible loss has been recorded in these financial statements.

(c) NSBI completed a transfer agreement with the Municipality of the County of Colchester in fiscal 2008, which included a water system. The system has undergone GUDI (Groundwater Under the Direct Influence of Surface Water) testing. Of the three wells tested, two were non-GUDI. As a result of the third well being determined as GUDI, NSBI will likely have to contribute additional funds to be used for water treatment. It is not known the extent of the liability that exists.

(in thousands of dollars) Year ended March 31, 2009

13. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated ("NSBI") and investments have been transferred from the Nova Scotia Business Development Corporation Fund ("NSBDC") on November 6, 2001. The following is a summary of the Fund as at March 31.

	NSBI Portfolio		NSBDC Portfolio		2009	2008
	Gross	Less allowance for credit losses	Gross	Less allowance for credit losses	Net total	Net total
Assets:						
Loans receivable	$ 26,219	$ 9,003	$ 97,205	$ 25,109	$ 89,312	$ 95,454
Equity investments	19,846	6,825	12,130	7,189	17,962	16,206
Industrial parks and malls	–	–	2,604	–	2,604	2,579
Other assets	–	–	822	822	–	–
Guarantees	3,534	2,934	–	–	600	2,114
Financing authorized but unadvanced	6,059	–	–	–	6,059	11,300
	$ 55,658	$ 18,762	$ 112,761	$ 33,120	$ 116,537	$ 127,653

	2009	2008
Funding authorized and committed:		
Fund balance authorized, net of write offs	$ 253,372	$ 257,123
Less: uncommitted balance of fund	84,953	79,736
Committed fund balance	168,419	177,387
Less allowance for credit losses and provision for payment of guarantees	51,882	49,734
	$ 116,537	$ 127,653

(in thousands of dollars) Year ended March 31, 2009

14. Risk management:

(a) Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Corporation's Nova Scotia Business Fund assets are primarily exposed to credit, interest rate, market and liquidity risk.

(i) Credit risk:

Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies:

Before financing is approved, a risk assessment is performed on the client. Each application is designated a risk rating based on the industry and business, quality of management, financial history and projections, the level of other creditor involvement and shareholder participation, and environmental risks. The terms and conditions of the approved financing are reflective of the assessed risk. Applications with unacceptable levels of risk are not approved.

Clients are usually limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Three clients currently exceed this total; two loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $34 million and $27 million, respectively (2008 - $36 million and $27 million). A third client, with existing financing of $14 million (2008 - $16 million), had approximately $3 million (2008 - $4 million) of authorized, but unutilized, funding available at year-end.

The risk rating for all clients is monitored on an on-going basis. Clients identified as higher risk are further assessed at year end to determine the extent of the potential loss, taking into account the value of the security pledged in support of the financial assistance. This assessment could result in a reduction in the carrying value of the investment via the provision for credit losses.

(ii) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical.

(iii) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument, its issuer or factors affecting all similar financial instruments traded in the market. At year end, the Corporation held $1,575 (2008 - $3,888) in publicly traded equities.

Notes to Financial Statements

(in thousands of dollars) Year ended March 31, 2009

14. Risk management (continued):

(iv) Liquidity risk:

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost effective manner. Liquidity requirements are managed through the receipt of provincial grants, income generated from the loans receivable and equity investments, and principal repayments received on the loans receivable. The sources of funds are used to pay operating expenses and interest and principal payments to the Province of Nova Scotia. In the normal course of business the Corporation enters into contracts that give rise to commitments for future payments which may also impact the Corporation's liquidity.

(b) Capital:

The Corporation carries out its programs in conjunction with the budget funding allocated to it by the Province of Nova Scotia. During the year, the long-term debt decreased by $6,500.

15. Supplementary cash information:

Cash is defined as cash and short-term investments.

During the year, cash received for interest income was $6,216 (2008 - $6,997) and cash paid for interest was $7,946 (2008 - $2,712). During the year, dividends in the amount of $1,190 (2008 - $nil) were paid.

16. Related party transactions:

Financing has been advanced to companies which were controlled or otherwise not independent of certain directors of Nova Scotia Business Inc. These investments totaled $38,142 (2008 - $37,058) and certain of these investments have specific allowances recorded against them totaling $7,490 (2008 - $6,211). Furthermore, payroll rebates in the amount of $4,515 (2008 - $4,515) were awarded to one or more of these companies.

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.

The Corporation occupies premises for which no rental fee is charged by the shareholder. Management estimates the annual cost to lease the premises is approximately $674 (2008 - $661).

The Corporation receives legal services for which no fee is charged by the shareholder. Management estimates the annual cost of these services is approximately $215. In 2008, the Corporation paid $215 to the shareholder for legal services.

(in thousands of dollars) Year ended March 31, 2009

17. Employee pension plan:

Employees of the Corporation participate in the Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2009 were $451 (2008 - $387) and are recognized as an expense in the year. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

18. Comparative figures:

Certain 2008 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

Schedule of Operating Expenses
(in thousands of dollars)

	2009	2008
Business development	$ 3,474	$ 2,960
Legal and audit	125	259
Office expenses	506	329
Other	139	152
Salaries and benefits	6,450	6,003
Telecommunications and technical support	525	351
Travel	976	873
	$ 12,195	$ 10,927

Schedule of Nova Scotia Business Fund Expenses
(in thousands of dollars)

	2009	2008
Amortization	$ 120	$ 168
Commissions	1	67
Interest	5,658	7,263
Legal	1	1
Repairs and maintenance	377	349
	$ 6,157	$ 7,848

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